Nick Spiller of Beta Business

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity and many other investors for early stage and growth companies. I hope you enjoy this episode. The. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website. Hello, this Hall Martin of Investor Connect. They were here with Nick Spiller, podcast host and fundraising coach at Beta Business through multiple episodes per week as well as in-person events. Beta business helps entrepreneurs gain practical tactics and meaningful connections for starting their company. Nick, thank you for joining us.

Speaker2: [00:00:57] Paul, it's good to be here. Thank you.

Speaker1: [00:00:59] Great. So tell us more about your background. What did you do before you started investing in early stage companies?

Speaker2: [00:01:06] Well, I grew up in Michigan, small town outside of Flint and learned what it's like to live in a city that isn't very entrepreneurial. It was very fortunate got into the University of Texas at Austin, moved to Austin over a decade ago and had been involved in the startup community ever since. I got started at UT was the founder of the Longhorn Entrepreneurship Agency. It was one of the first people on campus to meet Dr. Bob Metcalf, who was a professor of innovation and inventor of the Ethernet. Dr. Metcalf sponsored the Longhorn Entrepreneurship Agency. We call it LA. And yeah, that was the same time capital is starting. I took Josh Beyer and Dr. Metcalf's class at UT. Alongside that, and that led me to a long road of helping build the startup community in Austin. It's been a long time at capital factory specifically and just very involved in that ecosystem, both as a staff member but also as an entrepreneur getting getting supported there. And yeah, so that's how I got here.

Speaker1: [00:02:15] Great. So what excites you right now?

Speaker2: [00:02:18] So interesting question. I think what I've always been focused on and thinking about is this next generation of investors who grew up with smartphones, and right now you look at just say, family offices or a lot of the successful entrepreneurs, and they're really it's in the baby boomer generation, right? And people that didn't grow up with the internet and they made money in very different ways. And I think the pandemic is really the start of this massive transition of wealth from baby boomers to millennials and Gen Z. And I think that's going to unlock a lot of investment capital, really LP capital that will go into venture funds and even people in these families that will become VCs internally because that's what they want to do. And it's exciting work. And it's and it's just very different than, say, you're drilling an oil well or investing in real estate, which is where a lot of especially here in Texas, where a lot of that wealth is sitting. So yeah, I kind of view my job is to help help those individuals who are looking to get started in venture do it in a way where they're highly connected to other investors. They get connected to a lot of startups and they don't end up maybe. I think what we don't want to happen is having them invest a million dollars in one company that their friend at the country club introduce them to and have that go down the go down the drain 12, 12, 18 months later and kind of have a bad experience. So I think a lot I get very excited about new investors having good experiences and the startup.

Speaker1: [00:03:57] Right, and so you see a lot of startups and a lot of investors out there. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker2: [00:04:07] I try not to give them any direct advice, I don't want the FCC to come, come after me, that's something I think a lot and I think they would. But you know, but what I what I would tell investors if I was an investment adviser is it doesn't have to be a unicorn. And the reason that companies there's this unicorn exigences because there's really big funds out there. One hundred million billion dollar funds that need to return 3x their capital. They know that 20 percent of their returns will come from 80 percent of their portfolio. And that creates this and their customer, the endowment or pension fund that is funding the venture fund. They're looking for the highest rate of return from the venture asset class because it's so, so risky. And so there's just the fun model creates this huge expense for high scale, multibillion dollar companies. And as an individual who might have a million dollars or five hundred thousand dollars to invest, I don't think that's the game I'd go play know and I would look at.

How do I get involved in well-priced deals that could potentially grow to 50 hundred two hundred fifty million dollars in revenue, but has an exit ramp at $10 million in revenue or 20 million dollars in revenue? And that could still, you know, for example, if you say invest a million dollars on a five million dollar valuation, maybe do another three at a $10 million valuation, then you could sell it 10 or 15 million dollars for two x three x 10 x revenue multiple and still have a pretty good return for investors and just takes a lot more optionality.

Or it gives you a lot more optionality as an entrepreneur, whereas if you go take and an investor, go take. Say 10 million on 30 million is your first round or 50 million, then you're not going to sell until you hit 50 hundred million dollars in revenue. So that's kind of my message I'm trying to get across, but frankly, no one really wants to listen to it. At least on the investor side, there's a ton of founders that are like that makes so much sense. I would love to do that, but then I try to introduce them to investors and like really the first thing that they tell the founders, Oh, this doesn't have unicorn potential.

Speaker1: [00:06:25] Well, so is that your advice for people running start ups? What do you what's your coaching to them for this?

Speaker2: [00:06:33] I always try to get them to do the math, and I think there's this, this almost. I mean, some situations say, I think if you're a maybe a young entrepreneur or you're twenty twenty five and you've got an app that's growing super fast and you maybe don't even know how you got there, maybe don't do the math and just take that big check from Sequoia or Andreessen, and I've seen that happen. I think it's great for younger people. But if you got to worry about your family paying your bills, right, investing in college funds, I think there's yeah, you want to understand what the where the off ramp is and you want to understand the life cycle financing strategy of your company and do essentially perform a return analysis and say, Hey, like you really, there's a spreadsheet. I have a spreadsheet that I fill out with the founders I coach where it's OK. Here's round one, and it's that it's a $2 million round and it's at this valuation. We've got this option pool and maybe it's a save, or maybe it's a price round. And then here's round two, round three. Here's the exit, and then you can toggle that and see. Here's the return if you sell for 10 million fifty million one hundred million and at least know what you're signing up for. I think a lot of people don't really grasp what it takes, how hard it is to get a company to one hundred million dollars in revenue in 10 years and what that means from a girl like you do that math. Also, it's just like, what? What growth percentage do you need for 10 years to take your company to one hundred million dollars of revenue? You know, it's and then you can talk the percentages, too.

I can talk them through, right? And you've got 30 million small businesses in the United States. You've got, you know, from reports, I see National Small Business Association, about seven point five million of them report inadequate access to funding. And there's there's ten thousand companies supported by the venture industry. And inside of that ten thousand companies, there's zero point zero two percent. That's this is an older metric. I bet it's actually a little higher now with all the mega rounds, but zero point zero two percent hit one hundred million dollar valuation and zero point zero one percent hit a billion dollar valuation. So it just you got to understand the math. And if you go through that with me and you're still like, Yeah, I risk it, I'm going to be the next Mark Zuckerberg, then more power to you. I love the confidence. I think, you know very well may be there, but what I found is a lot of entrepreneurs are very interested in a more modest journey. They really just want to get really. They're usually just worried about one round of funding. It's just like, Man, if you could just get me a million dollars or two million dollars, I could do a ton and I could put this business in a very sustainable state or growing state. It's like, No, I really once you get on the treadmill with the traditional VC model, you've got to keep taking that money and get to scale to the point of that, that outsized return that I talked about at the top of the episode.

Speaker1: [00:09:31] So true. And so let's talk about the state of investing in startups. How do you see the industry evolving from here?

Speaker2: [00:09:38] Yeah, it's a great question. I think there's a massive concentration of capital. You've been looking, you know, venture emerged in its current form mid-eighties and institutions like the Yale Endowment have had incredible returns. I mean, just like really shake the institutional investor world. And so you see some aggressive investing on behalf of these institutions and to venture especially the ones that are in these top tier tier funds. And so the report I look at is the National Venture Capital Association's venture monitor, and it shows the last year was a record year for year deal value. This year is doubling that year and the rounds are getting bigger and bigger and the the deals and the valuations are getting higher and higher. Same time, the deal count is arguably declining. There's not it's staying about the same, which means you've got essentially the same number, a small number of companies getting more and more more money. And so it's kind of creating this, I think, really this different asset class. It's not even really about startups anymore, it's about grow ups. And, you know, and it becomes really hard for that venture ecosystem to help the entrepreneur that's in their garage. That is just just kind of tinkering around. There's really, I think, needs to be a whole new asset class, whole new type of investor that can safely invest at at the really the true startup stages where you don't have any revenue or you've got some, but there's a bunch of problems or yeah, it might be really good, but you're just not as good as the other companies that are trying to get venture funding right waiting.

Speaker1: [00:11:33] It is the biggest change you'll see and say the next 12 to twenty four months.

Speaker2: [00:11:37] It's a great question. What I've seen happening is this migration of venture capital across the country, and you used to see about seventy five, 80 percent of the VC funding going to Silicon Valley. I think that's far lower. There's five cities seem to have like really emerged as the the rising five. There's, I think almost every city over half a million people is going to have a vibrant starting startup community that's happening right moving forward because of this decentralization of the startup community. I think the local geography piece of it is going to go out the window. Also, you know, we have the pandemic that's already jumpstarted this and forced us to work remotely. We're doing this podcast remotely. Teams have been established remotely, people are turning nomadic and at least people I see that are spending three months in one city and three months in the next city, and they don't even have a home base. So I think it's really it's not that Silicon Valley or Austin or Chicago, Miami, Denver, it's not that they're becoming the next Silicon Valley. I think it's really that Silicon Valley is spreading out across the United States, and as that happens, it kind of gets infused at the local business culture like it has here in Austin or in Indianapolis or Charlotte, et cetera. And I think that's really interesting prospect. And, you know, there's certainly amazing pieces to Silicon Valley. And then again, getting back to my more modest outcomes. I think that's where you get these local communities like we have had here in Austin and across Texas that that kind of coupled with that maybe bring the upside down a little bit, but also protect the downside and keep it a little less risky, a little more reasonable and predictable for an entrepreneur who is trying to feed their family.

Speaker1: [00:13:33] Right? So let's talk about your investment thesis. What is it and what your criteria for making an investment?

Speaker2: [00:13:39] It's a good question. I try to get into good deals that I shouldn't be in. And I think it depends on the stage. I'm starting to get more involved. The later stage. I really I like that. And as much as I just talked about investing at the earlier stage, like when you have your investor hat on, it's far less risky. You could put more money to work. Some of these family offices, bigger funds, it's just easier for them to do those deals because they need to. So I think there's a lot of seed funds, smaller seed funds that have pro rata that they can't fill at the later stages. That's what I'm trying to get in on and try to make make those deals, and I'm very agnostic. Being at Capital Factory, I got exposure to every industry, every stage. And so I'm really comfortable everything outside of the FDA, essentially. And at the early stage, I'm very focused on the University of Texas, and that's just my network and and I've built both the Longhorn Entrepreneurship Agency and Genesis, and there's a company we're about to announce we funded. It's a student company. I'm really excited about it. It's called my workout group. It's a student who wanted more accountability for working out something we've all tried or seen a lot of people take a stab at. He, using TikTok, built an audience before pre-launch and very engaged, kind of went viral on TikTok and launched his app within three hours of launching, achieve the number one spot on the Apple App Store in the health and fitness category. And so it's like companies like that. It's just like, man, I see 50 students startups a year and or graduate students or even alumni that are starting through the Longhorn Network. And but that doesn't happen very often. I've been looking at UT startups for 10 years. Yeah, I've never seen anyone get traction with an app that fast. And so I think that's a big, big focus in mind. And yeah, but very, very general, generalist and opportunistic, I would say, right?

Speaker1: [00:15:52] Well, you see a lot of startups and a lot of investors. What's your what do you think is the main challenge that startups today face?

Speaker2: [00:16:00] Getting face to face with investors for obvious reasons. But I just I think there's no better place to start a relationship with an investor than the cocktail party. And I think investors run in circles, and if you can just get in that circle, they don't ask how you got in, but you just have that credibility because you showed up. I just, you know, I've been fighting through this whole pandemic with founders reaching out on LinkedIn and Twitter and calling people, and it's just it's a lot harder. Whereas before I could go throw a party and have 20 30 investors show up and then have the same amount of founders and create hunter connections and an evening, you know? And so, yeah, I think as long as you can remain safe, we need to get very focused at having little small gatherings. It doesn't even have to be big. I think it's better if it's only 30 or 40 people, maybe 20. I'm about to take 10 entrepreneurs to Marfa, Texas, in a month. And I think that will be a magical experience for everybody and something that will probably be refreshing that we haven't haven't done in a while a little in-person retreat.

Speaker1: [00:17:15] Right. And so on the other side of that was the challenge the investor faces in today's market

Speaker2: [00:17:21] Depends on what type of investor you are. I would say, you know, as a individual angel investor, smaller seed fund, I think you really risk not having enough money to play ball downstream and you can get in these deals. But if it really takes off, then the big funds start coming and they're putting $10 million check just to start and then, you know, 30, 40, 50 million and and, you know, even before the secondary opportunity. So I think that can be a little little tough. And yeah, I think we're also on on the horizon of rates going up from the Federal Reserve, which will probably taper what's going on the stock market, potentially cryptocurrency. Yeah, I think there's a lot that could happen. That's not not great. And I think that the ramifications of COVID have been we've had that kind of a Band-Aid on it and I don't know, kind of have the titanic theory of it. We kind of knew that something bad happened two years ago, but it didn't quite feel as bad. I mean, obviously it was bad from a health perspective, but from an economy standpoint, we've been making more money than ever and rates are going through, you know, very low. And but they've just been slowly. There's been levels of COVID that have it's almost like the chambers and the Titanic every three months or some new effect. You were experiencing supply chain and L.A. right now. And yeah, I think like I'm looking for the point where the ship breaks, right? And if it breaks in half and there's an event that happens, I don't know what that could be. And I don't want to speculate on the show, but it's something like that happens. I think you're kind of in for a cold winter and hopefully you will have raised money for your company right before that or raise money for your fund right before that. Because, yeah, we're on the longest bull run in the history of the economy. We've had very not so great situations and outside in the world. And see, I think that's something that you've got to at least be thinking about.

Speaker1: [00:19:35] That's a good point. The market just can't keep going up forever, eventually it's going to have as cycles to go through, and it'll be a different world then, for sure. So that's a good point. Well, you see a lot of different sectors and applications out there. If you had to pick one or two that you think are good opportunities for investors to pursue today, what would you call out?

Speaker2: [00:19:56] I got a call out CPG continues to impress. Austin is a great example of a city that's branded itself as a tech company, but has made all its money in CPG and you've got Yeti and Kendra Scott. And I mean, there's a Tito's vodka long list of unicorn CPG companies that you know in the tech community couldn't even touch. And it's just also just the way people are buying. Seems like it's. I remember in probably 2010 when the first Black Friday of the baby that I remember just period that Facebook is around right and it was just underwhelming. There wasn't a lot of stuff bought through social media. I think we're way past that now. People are buying stuff through social media based on what teenage influencers are wearing and their Tic TAC reel, right? And so it's created this, like just a very powerful channel to the customers is actually more scalable than than SAS. Or, you know, you look at a company like Hymns became the fastest company to a billion dollar valuation as a CPG company faster than any sass company ever did. And I think it's actually just if you can strike that nerve.

With, you know, people out there that care, it can just be so fast that you grow. So yeah, CPG is big and I think really across the board in salt and software seems to be combining hardware, it seems to be really becoming easier and more acceptable than than it was maybe five or 10 years ago where everyone would say, Oh, hardware is really hard, we don't want to fund it. But I see it's almost almost half of the software companies I see now have some type of hardware component, and VCs seem way more open to that. And so I think that's yeah, like what we're going to see icon threads like the big one in Austin that's just announced, they're partnered with Lennar and are building a whole 3D printed neighborhood in Austin. Super cool. A company I got to work out and help manage our investment at Capital Factory. See, I think, yeah, robotics, hardware and then also CPG are really hot, but right now, everything is super hot. I was just on the phone with an investor. I'd say, Get what? Get all the Gittins good and see, that's my my take on it, right?

Speaker1: [00:22:19] Well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:22:22] Well, you know, I've, you know, I have a podcast of my own. That's I mean, how do you like podcasting? You find it enjoyable.

Speaker1: [00:22:32] I enjoy it. I get to hear great stories, meet new people every day. I started because I wanted to capture the knowledge of investors into some format to reuse it. Because when I ran angel networks, what I saw is they would start a new group, spend the first three years, everybody getting educated and learning how to do it four or five years, they'd do a little bit more work and then they would step out, retire whatever. Here comes the next group, and they repeat the whole cycle all over again. They spend the first three years learning and thought, and when I talk to age group leaders, that's what they told me. They said, I wish I had something that had more institutional knowledge so we could not have to go through that learning cycle every time that we do it. So that's why I do it myself. But I enjoy, enjoy hearing stories, telling stories and so forth, and it's a right way to do that.

Speaker2: [00:23:21] Yeah. Yeah, and it was similar for me with beta business, we, my partner, Grant Guertin and I had worked with hundreds of entrepreneurs. If not, maybe, maybe, maybe over a thousand, but definitely hundreds. And you develop these very specific thoughts on things, and my delivery seems so inconsistent and I love the podcast. We get on there for 10 15 minutes and we get very direct advice for entrepreneurs and it's things that we've tried and tested on our own companies. And yeah, it seems very effective for getting that piece across almost every conversation I have with the founder. I can say, Well, I'll tell you what I can tell you right now, but you need to listen to the podcast because that's what I thought it out and I wrote out the the advice. And yeah, we've also started doing some interviews as well to couple with our direct advice. Episodes will have to have you on hall at some point. So, yeah, that's a big thing I've had going on. I'm also if anyone's interested in barbecue, I've started a competitive barbecue team during the pandemic and I now award-winning pit master. I got a silver medal at

IPCA sanctioned Cook-Off. And yeah, so that's the other side of what I do in my weekend job when I can go out and smoke brisket and sausage and all that.

Speaker1: [00:24:48] Sounds like you're having a great time there with it, looking forward to the podcast itself. For listeners out there, how best to get back in touch with you and how can they find that podcast?

Speaker2: [00:24:59] Yeah, you found the podcast beta business on Spotify or really any of your favorite podcast players, and I am very accessible on LinkedIn. That's why I'd go with so reach out to me on LinkedIn. I get back to everyone, even the people that just spammed me with their deck. I usually respond and talk to them as well because I love meeting entrepreneurs and usually in the first conversation, I can be the most helpful.

Speaker1: [00:25:25] Great. Well, we'll include those in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon. Great. Thanks. All. Investor Connect helps investors interested

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